

ANNUAL INVESTMENT REPORT

**FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2004**

**PREPARED BY
BOB INZER
CLERK OF COURTS**

LEON COUNTY, FLORIDA

ANNUAL INVESTMENT REPORT
for the Year Ended September 30, 2004
Leon County, Florida

Attachment # 1
Page 2 of 16

EXECUTIVE SUMMARY

The Counties investment Portfolio continued to perform generally, as expected. The Commission approved Investment Policy provides for a very conservatively managed portfolio. Policy controls related to portfolio duration, credit quality, liquidity and instrument selection effectively eliminates both the upside and downside surprises with respect to investment returns. The portfolio is primarily managed externally using the State Board of Administration Local Government pool (the SBA) and Voyager Asset Management for slightly longer term investments. The balance of the portfolio is associated with our banking relationship and a residual investment security associated with a previous debt service reserve account.

Portfolio Return

The portfolio earned \$2,947,502 for an effective rate of return of 1.93% on an average daily balance of \$152,432,893 in the fiscal year 2004. Given the general overall reduction in interest rates, the average portfolio return for Fiscal Year 2004 dropped to 1.93% from 2.50% the previous year. Overall investment earnings dropped in 2004 due not only to lower interest rates, but a decrease in the average daily balance invested from \$164,467,163 to \$152,432,893. Excess cash was invested according to the Investment Policies in permitted investments within composition limits and allowable maturities. Total earnings (interest, capital gains/ losses) exceeded budgetary estimates by \$973,511.

While the average Federal Funds Rates did not effectively change from FY2003 to FY2004 there was a change in direction. During FY2003, the Federal Funds rates fell to 1% (the lowest level in over 40 years) during the summer. Interest rates remained at this level until the summer of 2004 when they began increasing and have continued to rise during the first quarter of FY2005. An increase in interest rates in the long run will be reflected in additional interest income. However, in the short run increasing interest rates has an adverse impact upon current returns. As interest rates rise, the price/value of outstanding bonds declines as investors are unwilling to pay the same price for previously issued bonds that carry a lower interest rate. Therefore, prices on outstanding bonds fall to the point where the current yield together with the price appreciation will result in a total return equal to current market yields.

With interest rates rising at the end of the year, the value of our portfolio declined by \$820,778. The portfolio yield exclusive of the price depreciation was 2.52% (.59% adjustment for price depreciation on our portfolio). The County has a relatively short duration portfolio and the impact upon our yield, given the 50% increase in Federal Funds rate is relatively modest.

ANNUAL INVESTMENT REPORT
for the Year Ended September 30, 2004
Leon County, Florida

Attachment # 1
Page 3 of 16

Modifications to Investment Policy

Effective July 1, 2004, Section 17.61(1), Florida Statutes was amended to permit organizations created by the Florida Constitution to participate in the existing State Treasury Investment Pool "Special Purpose Investment Account (SPIA)". During the year, the IOC met with Clerk staff and a representative of the Department of Financial Services (DFS) to evaluate investment of a portion of the County investment portfolio in the same program. The IOC subsequently recommended that the Board of County Commissioners amend the Investment Policy to expand the list of permitted investments to include investing up to 15% of the portfolio in the Special Purpose Investment Account.

The IOC in reviewing the overall investment policy determined that there was no basis to limit the percentage of the portfolio that can be invested in the SBA. Currently, the Policy limits the amount that can be invested in the SBA to an amount not to exceed 50% of the total value of the portfolio. Elimination of this restriction will provide the County a shorter duration and less risky investment alternative if the SPIA and other longer-term investment instruments lose their competitive advantage. The Committee voted to recommend that the Board remove the restrictive 50% cap from the Investment Policy on the amount of the portfolio that may be invested with the SBA.

Section 218.415(15), Florida Statutes requires Leon County Clerk of Courts to provide an annual report to the Board of County Commissioners of the securities in the portfolio by investment type, book value, market value and income earned. This information included in this report is as of September 30, 2004.

Table I

Summary Table of Portfolio Performance as of September 30, 2004

<u>Investment Type</u>	<u>Book Value</u>	<u>Market Value</u>	<u>Gain/Loss</u>	<u>Interest</u>	<u>Total Income</u>
Voyageur Asset Mgmt (Intermediate)	\$62,466,568	\$61,681,194	(\$785,374)	\$2,209,496	\$1,424,122
Voyageur Asset Mgmt (Landfill)	4,087,985	4,052,581	(35,404)	134,357	98,953
SBA (Intermediate)	54,497,289	54,497,289		816,048	816,048
SBA (Landfill)	5,296,344	5,296,344		69,534	69,534
Wachovia Money Market	631,581	631,581		493	493
Wachovia Cash Pool	8,683,410	8,683,410		168,240	168,240
Bank of New York Repurchase Agreement	5,133,304	5,133,304		370,112	370,112
Total Cash and Investments	\$140,796,481	\$139,975,703	(\$820,778)	\$3,768,280	\$2,947,502

ANNUAL INVESTMENT REPORT
for the Year Ended September 30, 2004
Leon County, Florida

Attachment # 1
Page 4 of 16

Table II

Average Portfolio Balance and Return for the Year Ended September 30

	<u>FY 2004</u>		<u>FY 2003</u>	
<u>Investment Type</u>	<u>Average Daily Balance</u>	<u>Annual Yield</u>	<u>Average Daily Balance</u>	<u>Annual Yield</u>
Voyageur Portfolio Manager Account (Fixed Income Securities)	265,412,993	2.77%	263,392,368	3.41%
State Board of Administration Pool	62,200,255	1.42%	71,259,714	1.52%
Wachovia Cash Pool	19,192,379	0.88%	24,232,873	1.48%
Wachovia Money Market	494,022	0.10%	548,884	0.52%
Bank of New York Repurchase Agreement	5,133,304	7.31%	5,133,304	7.21%
Totals	\$152,432,893	1.933%	\$164,467,163	2.506%

ANNUAL INVESTMENT REPORT
for the Year Ended September 30, 2004
Leon County, Florida

Attachment # 1
Page 5 of 16

TABLE OF CONTENTS

<u>Section</u>	<u>Section Title</u>	<u>Page</u>
I.	Investment Policy.....	1
II.	Investment Oversight Committee	1
III.	Activities of the Investment Oversight Committee.....	1
IV.	Investment Objectives.....	2
V.	Portfolio Performance	3
VI.	Permitted Investments and Allowable Maturities	4
VII.	Liquidity Requirements	8
VIII.	Investment Operations	8
IX.	Conclusion	11

<u>Table</u>	<u>Table Title</u>	
1	Permitted Investments	4
2	FY 2004 Portfolio Composition.....	9
3	Average Term by Investment Type.....	9
4	Budget and Actual Interest Earnings.....	10

ANNUAL INVESTMENT REPORT
for the Year Ended September 30, 2004
Leon County, Florida

Attachment # 1
Page 6 **of** 16

I. INVESTMENT POLICY

Section 218.415, Florida Statutes provides units of local government the ability to adopt a written investment plan to govern the investment of their investment portfolio. The Leon County Board of County Commissioners on September 17, 2002 adopted an investment policy. It provides for among other things, an annual report to be presented to the Board of County Commissions. The Florida Constitution provides that the Clerk of the Court will be responsible for the investment of County funds and this report is being submitted by the Clerk as provided by the Board's Investment Policy. All investment activity is conducted in accordance with written procedures and internal controls.

II. INVESTMENT OVERSIGHT COMMITTEE

The Investment Oversight Committee (IOC) was established by the Leon County Clerk of Courts (Clerk) to formulate investment strategies, provide short-range direction and monitor the performance and structure of the County's portfolio. The IOC consists of the Clerk, the Director of OMB and three qualified individuals with financial or investment expertise who are independent of employment and business relationships with Leon County. They are Mr. Randy Pople, IOC Chairman, President of Capital City Trust Company; Mr. John Lawrence, retired Public Administrator; and Charles Cooper, Real Estate and Tax Attorney, Partner at Cooper and Byrne.

III. ACTIVITIES OF THE INVESTMENT OVERSIGHT COMMITTEE

The Investment Oversight Committee (IOC) scheduled periodic meetings to discuss issues relating to the investments of the County. In addition to the regular meetings with staff and representatives of Voyageur Asset Management, the IOC scheduled several intra-quarterly meetings to discuss a new investment opportunity resulting from a change in Florida Statutes.

Effective July 1, 2004, Section 17.61(1), Florida Statutes was amended to permit organizations created by the Florida Constitution to participate in the existing State Treasury Investment Pool "Special Purpose Investment Account (SPIA)". In previous action the SPIA was approved by the Board of County Commissioners as an authorized investment instrument for Blueprint 2000 funds. During the year, the Investment Oversight Committee (hereinafter "Committee") met with Clerk staff and a representative of the Department of Financial Services (DFS) to evaluate investment of a portion of the County investment portfolio in the same program.

The Committee considered the investment policy objectives: to insure the safety of County Assets, to provide sufficient liquidity to meet the County's operating, payroll and capital requirements, and to maximize the return on the portfolio at a predefined and acceptable level of risk.

ANNUAL INVESTMENT REPORT
for the Year Ended September 30, 2004
Leon County, Florida

Attachment # 1
Page 7 of 16

The information provided by DFS showed that the size of the investment pool and the allocation principles for Treasury funds were used to mitigate the risk from investing in longer-term maturities and lower quality credits than previously authorized. The DFS representative described the investment strategy that is employed in the Treasury portfolio as the "barbell" strategy. A strong liquidity position is maintained in the bridge portfolio and the liquidity portfolio while the remaining funds are placed in higher earning medium term instruments such as investment grade corporate bonds and mortgage backed securities. Historically, SPIA participants have received higher earnings reflecting the higher risk associated with the longer maturities and lower credit quality.

In considering all of the information above, the Committee felt SPIA was within the county's risk tolerance and would benefit from the incremental yield. Extending the average duration of the portfolio will not likely result in any period of negative total returns, but over time will enhance total return. A reallocation of a portion of our funds invested with the SBA to the SPIA pool will allow the county to employ a barbell strategy similar to that utilized by the SPIA Fund.

Accordingly, the committee voted to recommend to the Board of County Commissioners that the County's Investment Policy be revised effective January 11, 2005, to permit up to 15% of the County portfolio to be invested with the Treasury Special Purpose Investment Account (SPIA). This recommendation was judged to enhance returns at an acceptable increase in risk.

The committee in reviewing the overall investment policy determined that there was no basis to limit the percentage of the portfolio that can be invested in the SBA. Currently, the Policy limits the amount that can be invested in the SBA to an amount not to exceed 50% of the total value of the portfolio. Elimination of this restriction will provide the County a shorter duration and less risky investment alternative if the SPIA and other longer-term investment instruments lose their competitive advantage. The Committee voted to recommend that the Board remove the restrictive 50% cap from the Investment Policy on the amount of the portfolio that may be invested with the SBA.

IV. INVESTMENT OBJECTIVES

The Policy describes three specific objectives to be applied in managing the County's investments. The primary objective is **safety** of the County's funds. Safe investments are those that ensure minimum credit risk, the risk that the principal will not be repaid. Safe investments are also those that carry minimum market risk, the risk that the principal value will not decrease over the life of the investment. This objective also considers methods to **control risks and diversify** the portfolio by security types, maturities and financial institutions.

The second objective is the provision of sufficient **liquidity**. The County's funds are invested so that the County can meet its expenditures of operating, payroll, and capital

ANNUAL INVESTMENT REPORT
for the Year Ended September 30, 2004
Leon County, Florida

Attachment # 1
Page 8 of 16

needs when they become due. Liquidity is also the ability to sell an investment when necessary, with minimal delay and minimal loss of principal. The portfolio's investments are held to maturity, when possible, to avoid selling the investment prior to maturity and risking a capital loss.

Maximizing yield on the portfolio is the County's third investment objective. This objective is only sought after the County has met its first two investment objectives.

V. PORTFOLIO PERFORMANCE

The portfolio earned \$2,947,502 for an effective rate of return of 1.93 % on an average daily balance of \$152,432,893 in the fiscal year 2004. Acceptable portfolio performance is the result of balancing the rewards of investing, or the income earned, with the risks associated with those investments. Factors influencing the portfolio's performance are the types of permitted investments and allowable maturities, liquidity requirements, overall interest rate environment, cash flows, and the investment manager's performance.

For comparison, the portfolio earned \$4,120,618 for an effective rate of return of 2.5% on an average daily balance of \$164,467,163 in fiscal year 2003. As stated earlier in the executive summary, the effective rate of return for fiscal year 2004 is lower than that for fiscal year 2003 because of the increase in interest rates occurring at the end of the fiscal year.

Overall Market and Portfolio Specific Commentary from the County Investment Advisor

Voyageur has kept Leon County's portfolios positioned to take advantage of the various changing interest rate scenarios during the year. Interest rate risk levels have been maintained at levels either less than or equal to the comparable benchmarks during the year. As the year ends, the markets now seem to have future Federal Reserve interest rate activity factored into the markets appropriately. The FOMC starts calendar year 2005 with a Fed Funds rate of 2.25% and is expected to continue its "measured pace" policy of bringing interest rates into equilibrium with anticipated economic growth.

Leon County's portfolios managed by Voyager, on a consolidated basis, outperformed their benchmark index, the Merrill Lynch 1-3 Year Government Index for the fiscal year ending September 30, 2004. The combined portfolios enjoyed an approximate 2.77% income return for the fiscal year. On a rolling 5-year basis, the combined portfolios outperformed 5.08% vs. 5.06% net of fees.

Keeping Leon County's best interests in mind, Voyager has taken action in several areas during the past year. Committee action in 2001 prohibiting Corporate investments was reversed as corporate earnings and balance sheets have stabilized and improved over the past several years. Voyager has increased its holdings in that sector and continues to participate in this sector, although with much broader issuer diversification. Exposure to

ANNUAL INVESTMENT REPORT
for the Year Ended September 30, 2004
Leon County, Florida

Attachment # 1
Page 9 of 16

any single credit has been reduced generally to 1% or less per credit. Voyageur has also increased its exposure into the taxable municipal fixed income sector. Significantly lower default rates than the corporate sector in general and an excellent diversifier away from the agency sector has contributed to our move into this sector. Agency securities continue to experience headline risk concerns and Voyageur's perception is that it may cause spreads to widen and therefore have been transitioning to sectors with less risk. Finally, structured product, such as collateralized mortgage obligations, mortgage-backed securities and high quality asset-backed securities are being incorporated into the portfolio to add incremental yield while maintaining appropriate levels of interest rate, credit and structure risks.

VI. PERMITTED INVESTMENTS AND ALLOWABLE MATURITIES

Table 1 summarizes the permitted investments, composition limits and maximum allowable maturities. The County's available funds are invested according to Leon County Investment Policy Section XIV, which authorizes the County to invest in specific permitted investment types. The permitted investments are restricted by the Policy in their composition limits and maximum allowable maturities. The portfolio was in compliance with all policy limits. The Policy permits maturities of the operating portfolio establishing a range of 60 days to 10 years. The actual portfolio will have a range of 60 days to 2.5 years, with an average duration of 1.5 years. Table 1 gives a brief description of each investment type. It is generally regarded that the following investment types are safe investments and meet the Policy's first objective: safety.

Table 1.- Permitted Investments

<u>Investment Type</u>	<u>Composition Limit</u>	<u>Maximum Maturity</u>
SBA	50%	NA
Treasuries	100%	Ten Years
Agencies	45%, 15% any one issuer	Five Years
Instrumentalities	45%, 15% any one issuer	Ten Years
CDs & Savings Accounts	20%, 10% any one issuer	One Year
Repurchase Agreements	15%, 5% any one issuer	60 Days
Bankers' Acceptances	15%, 5% any one issuer	270 Days
Commercial Paper	20%, 5% any one issuer	270 Days, avg. 90 days
Municipal Obligations	10%	Three Years
Money Markets	25%	NA
FLGIT and/or FMIT	15% combined	NA

A. Florida Local Government Surplus Funds Trust Fund Investment Pool (SBA)

The SBA is administered and invested by the Florida State Board of Administration for the purpose of pooling investment funds of local governments in an investment portfolio of money market instruments that provide liquidity while preserving

ANNUAL INVESTMENT REPORT
for the Year Ended September 30, 2004
Leon County, Florida

Attachment # 1
Page 10 of 16

capital. As of October 1, 1997, the SBA had converted to a "2a-7 like" investment pool (SEC Rule 2a-7 of the Investment Company Act of 1940). Some of the pertinent investment constraints of a "2a-7 like" pool include weighted average maturities limited to 90 days, maximum maturities for government securities limited to 762 days, money market instruments limited to 397 days, and top tier credit ratings. At September 30, 2004, the SBA was invested in Treasury Bills 7.94%; federal agency obligations 18.97%; commercial paper 23.74%; and medium term and variable rate notes 49.35%. This investment type is subject to some market risk. However, since it operates as a "2a-7 like" pool, interest rate risk (the risk that interest rate fluctuations might impair the portfolio's profitability or viability) is minimal. A maximum of 50% of the portfolio may be invested in the SBA, but when combined with money market mutual funds, may not exceed 60% of the portfolio. Bond proceeds temporarily deposited with the SBA are not considered in calculating the composition maximum. The average yield for SBA for the year ended September 30, 2004 was 1.33%.

B. U.S. Treasury Securities (Treasuries)

The securities comprising Treasuries are direct obligations of the U.S. Government. The securities are designated by maturity. Treasury Bills have maturities of one year or less, Treasury Notes have maturities of two to ten years, and Treasury Bonds have maturities of more than ten years. The longer maturities share some market risk in that their prices may be more volatile due to interest rate fluctuations. Treasury yields are typically lower than yields of other U.S. Government securities. The investment policy allows the County to invest up to 100% of the portfolio in these investments.

C. Federal Agency Securities (Agencies)

Agencies are securities issued by agencies of, and are guaranteed directly by, the U.S. Government. The Policy limits Agency investments to direct obligations or guaranteed certificates of the Export-Import Bank, certificates of beneficial ownership of the Farmers Home Administration, discount notes of the Federal Financing Bank, Federal Housing Administration debentures, General Services Administration participation certificates, Maritime Administration guaranteed Title XI financing, guaranteed Public Housing notes and bonds, and HUD project notes and local authority bonds. Agencies are typically longer term and not frequently traded, creating some liquidity risk. Agency yields are generally greater than Treasury yields of similar maturities. A maximum of 20% of the portfolio may be invested in agencies.

ANNUAL INVESTMENT REPORT
for the Year Ended September 30, 2004
Leon County, Florida

Attachment # 1
Page 11 of 16

D. Federal Agency Securities (Instrumentalities)

Instrumentalities are also securities issued by agencies, which are sponsored by the U.S. Government. The Policy allows purchases of bonds, notes or debentures of the issuing agencies including Federal Farm Credit Banks, Federal Home Loan Bank or its district banks, Federal National Mortgage Corporation, and the Student Loan Marketing Association. Instrumentalities vary in maturities. Yields on Instrumentalities are typically greater than Treasury yields of similar maturities. The Policy further restricts investments in any one agency to 15% of the portfolio and an aggregate of 45% of the portfolio.

E. Certificates of Deposit and Savings Accounts (CD's/Savings)

The Comptroller may invest in nonnegotiable, interest bearing certificates of deposit and savings accounts in state or national banks located in Florida, and having their deposits secured by Chapter 280, Florida Statutes, known as the Florida Security for Public Deposits Act. The Policy provides that the issuing bank may not be listed with any nationally known credit watch organization. There is some liquidity risk in that this investment type is subject to penalties for early withdrawal. The Policy further restricts investments in any one bank to 10% of the portfolio with an aggregate limit of 20%.

F. Repurchase Agreements (Repos)

A repurchase agreement is a financial transaction in which Leon County exchanges cash for ownership of specific securities with a simultaneous agreement to sell back the securities. Overnight repos mature in one day. Other repos are written to mature in specific multi-day periods and are known as term repurchase agreements. Other repos are written as open transactions with indefinite terms subject to liquidation by either party. Yields tend to run close to the federal funds rate. The Policy calls for the specific securities to be only those Treasuries or Instrumentalities allowed by the Policy with maturities. The collateral held pursuant to a repurchase agreement shall have a maturity under five years and having a market value of 102% during the term. Leon County will enter into a repo transaction only with qualified financial institutions, which have executed a Master Repurchase Agreement with the Comptroller's Office. The Policy further restricts transactions with any one financial institution to 5% of the portfolio, except for one-business day repos, with a maximum of 15%.

G. Bankers' Acceptances (BAs)

Bankers' Acceptances are generally bearer form securities comprised of underlying letters of credit used to finance international trade. A BA is created from a letter of credit issued by an importer's bank to pay a foreign exporter for goods expected to be received. The exporter will normally present this letter of credit to its bank for a

ANNUAL INVESTMENT REPORT
for the Year Ended September 30, 2004
Leon County, Florida

Attachment # 1
Page 12 **of** 16

discounted payment. The exporter's bank then presents the letter of credit to an U.S. correspondent bank for payment at which time it is marked "Accepted". Upon acceptance, the BA becomes an irrevocable and unconditional obligation of the accepting bank and it is also an obligation of the importer and any endorser thereof. BAs typically have maturities of 180 days or less. Yields are generally greater than Treasuries and Instrumentalities of similar maturity. The Policy requires BAs to be inventory-based, issued by a domestic bank, rated Prime-1 and A by Moody's Investors Service and A-1 and A by Standard & Poor's, and ranked in the top fifty U.S. banks by the American Banker's yearly report. The Policy further restricts the investment with any one financial institution to 5% of the portfolio and an aggregate of 15% of the portfolio.

H. Commercial Paper (CP)

Commercial paper is unsecured short-term debt issued primarily by corporations to finance receivables and other short-term needs. CP has a maximum maturity of 270 days or less. Yields are typically greater than Treasuries and Instrumentalities of similar maturity. The Policy requires the issuer to be rated Prime-1 by Moody's Investor's Service and A-1 by Standard & Poor's, and, if backed by a letter of credit, the credit provider must be ranked in the top fifty U.S. banks by the American Banker's yearly report. The Policy further restricts the investment with any one financial institution to 5% of the portfolio and an aggregate of 20% of the portfolio.

I. Municipal Obligations (Munis)

For situations necessary to comply with arbitrage regulations, the Clerk may invest in taxable and tax-exempt debt, and general obligation and revenue bonds issued by states and local governments. Long-term debt must be rated at least AAAm or AAAg.

J. Fixed Income Money Market Mutual Funds (Money Markets)

Money markets are pools of securities providing income and liquidity. The Policy enables the Comptroller to invest in SEC qualified fixed income money markets with underlying investments only in Treasuries, Instrumentalities, Repos, Munis, CP and BAs. The average maturity of the underlying investments may not exceed one year. A maximum of 25% of the portfolio may be invested in money markets, but when combined with the SBA may not exceed 50% of the portfolio. The Policy further restricts the investment with any one fund to 3% of the portfolio.

K. The Florida Local Government Investment Trust Government Fund (FLGIT) or the First Municipal Investment Trust (FMIT)

The FLGIT is a local government investment pool created by the Florida Association of Court Clerks and Comptroller, and the Florida Association of Counties for the

ANNUAL INVESTMENT REPORT
for the Year Ended September 30, 2004
Leon County, Florida

Attachment # 1
Page 13 of 16

purpose of providing public entities with an investment program that focuses on longer term securities with the highest credit ratings. The effective maturity of the underlying investments is five years or less. At September 30, 2004, the FLGIT was invested in money markets, Treasury Notes, asset-backed securities, and Federal agency obligations. This investment type is subject to some market risk due to fluctuating prices and liquidity risk due to advance redemption notification requirements. However, it has a professional investment advisor and an investment advisory board, and provides diversity in the Fund's portfolio. The FLGIT maintains a credit rating of AAA by Standard & Poor's. The FMIT is a similar investment pool operated by the Florida League of Cities. Its rating, investment parameters and liquidity generally mirror those of the FLGIT.

VII. LIQUIDITY REQUIREMENTS

The second objective in managing the County's investments is the provision of sufficient liquidity. On a regular basis, the County's receipts and disbursements are analyzed to determine trends in cash inflow and outflow. Cash inflows are invested immediately upon receipt and become part of the portfolio. The portfolio provides cash for weekly payment of operating and capital expenditures, biweekly payment of payroll expenditures, and semiannual debt service payments. Debt service payments are funded through sinking funds held by the County.

VIII. INVESTMENT OPERATIONS

Investing activities are conducted by the investment advisor and qualified professionals in the Clerk's Office in accordance with Florida Statutes, County Ordinances, and written policies and procedures. Monthly reports of investment activity and positions are prepared and distributed to management of the Clerk's Office, management of the BCC and the Investment Oversight Committee. Regular meetings of the IOC are held to monitor the portfolio, evaluate investment performance and discuss investment strategies.

The investment advisor and Clerk staff use sophisticated techniques in carrying out its investment activities including the use of electronic bank and trust account systems; electronic funds transfer; on-line, real-time monitoring of U.S. securities markets; and electronic trading. Bank account balances, cash requirements, investment positions and trust account activity are determined daily. Current conditions and evaluations of national economic activity are considered in making asset allocation decisions.

A. Portfolio Balances

The portfolio's ending balance for fiscal year 2004 was \$139,975,703 while the ending balance for fiscal year 2003 was \$124,534,053, an increase of \$15,630,650. The increase in year-end balances from fiscal year 2003 to 2004 is attributable to several factors including unspent funds for capital assets and an increase in income from operations.

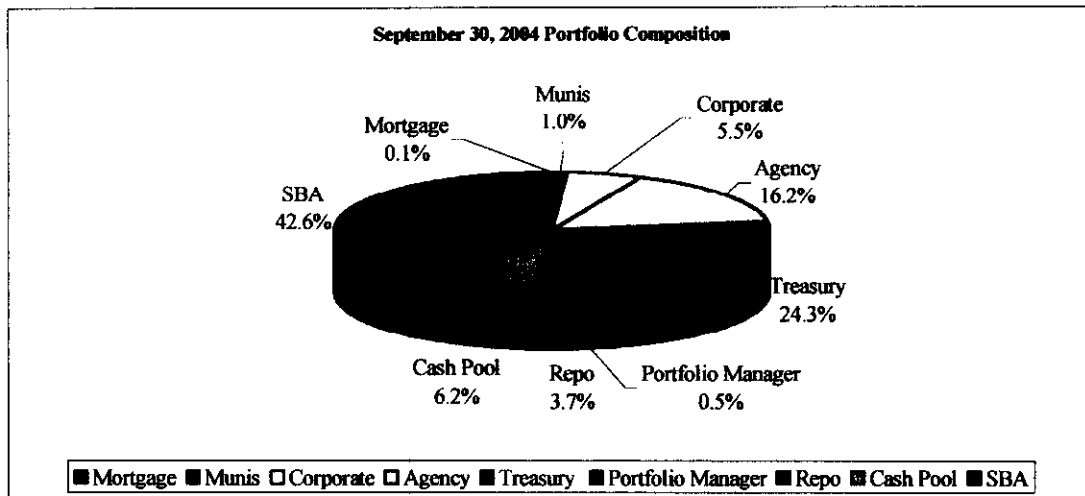
ANNUAL INVESTMENT REPORT
for the Year Ended September 30, 2004
Leon County, Florida

Attachment # 1
Page 14 of 16

B. Portfolio Composition

As of September 30, 2004, the portfolio was fully invested in permitted investments within allowable composition limits. The portfolio was managed in compliance with the Policy which requires the portfolio to be diversified by investment type. The portfolio consisted of treasuries totaling \$33.97 million or 24.30% of the portfolio. The investment in agencies totaled \$22.6 million; this represents 16.2% of the entire portfolio. Mortgage backed obligations were in the amount of \$0.12 million or 0.10% of the portfolio. As a result of the renewed activity in corporate investments, this position has \$7.66 million or 5.50%. The remaining funds included \$59.79 million invested in SBA representing 42.7%, the Wachovia cash pool with \$8.68 million or 6.20%, the Wachovia Money Market Fund with \$.63 million or .50%, and Bank of New York (Repo) with \$5.13 million at 3.70% of the portfolio.

Table 2



C. Portfolio Maturities

Table 3 – Average Term by Investment Type

<u>Investment Type</u>	<u>FY 2004</u>	<u>FY 2003</u>
Agencies	773 days	452 days
Treasuries	607 days	627 days
Mortgages	819 days	306 days
Corporates	697 days	901 days
Repos	731 days	731 days
Munis	1458 days	none
SBA	74 days	93 days
Money Market Funds	1 day	1 day

ANNUAL INVESTMENT REPORT
for the Year Ended September 30, 2004
Leon County, Florida

Attachment # 1
Page 15 of 16

Portfolio management was also accomplished in compliance with the Policy that requires ensuring sufficient liquidity as well as diversity in maturities. The County's contributions to the SBA pool may be returned the same business day for requests made prior to 11 AM and the following business day for requests made after 11 AM. Shown in Table 2 are the average terms of each investment type acquired in fiscal years 2004 and 2003. Average term is the average number of days from purchase to maturity of the investment. Average terms greater than one year represent investments of non-current funds, including the non-current operating portfolio, and investments of bond proceeds and debt service reserve funds. The Voyageur managed portfolio was invested for a weighted average term of 686 days in fiscal year 2004, as compared with a weighted average term of 526 days in fiscal year 2003.

D. Earnings and Yields

The dollar amount of earnings is used in historical and budgetary comparisons, and in cashflow analysis. The portfolio earned \$2,946,855 on its invested principal in fiscal year 2004. For comparison, the portfolio earned \$4,120,168 on its invested principal in fiscal year 2003. Actual earnings exceeded budget in fiscal year 2003 by \$597,805 and in fiscal year 2004 by \$973,511 as shown in Table 3 below. Interest rates for fiscal year 2004 were lower overall than fiscal year 2003.

Table 4 - Budget and Actual Income

	<u>FY 2004</u>	<u>FY 2003</u>
Actual	\$2,947,502	\$4,120,168
Budget	\$1,973,991	\$3,522,363
Variance	\$973,511	\$597,805

ANNUAL INVESTMENT REPORT
for the Year Ended September 30, 2004
Leon County, Florida

Attachment # 1
Page 16 of 16

IX. CONCLUSION

In conclusion, the results outlined in the Annual Investment Report are as follows:

- The investment portfolio is in full compliance with the Investment Policy.
- Overall portfolio risk has been reduced through improved asset quality.
- Actual interest earnings exceeded budget estimates by \$973,511.
- Total portfolio return was below that of last fiscal year due to rising Interest rates at the close of FY 2004

The Investment Oversight Committee made recommendations to:

- Remove the cap for investing in SBA and the addition of SPIA as a permitted investment instrument.

Presented by:

Randy Pople, Chairman
Investment Oversight Committee

Bob Inzer, Clerk of the Circuit Courts
Leon County, Florida